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SUBJECT: Rep. Larsen Meeting with GD Party Secretary Wang Yang:  
Though Difficult, Economic Crisis also an Opportunity for Guangdong

¶1. (U) SUMMARY: Guangdong remains highly dependent on exports, so higher savings rates in the United States could adversely affect the province's economy, Guangdong Party Secretary Wang Yang told Congressman Rick Larsen in a May 26 meeting. His plan for surviving the current economic downturn: continued emphasis on traditional export markets and the search for new ones, improved product quality, expansion into China's domestic market and a shift from manufacturing to more high-tech industries. Congressman Larsen reviewed for Wang measures taken by Congress to stimulate the U.S. economy. Wang also pointed out that Guangdong provides migrant workers left unemployed by the downturn free transportation to their hometown; there they are expected to farm or rely on savings and the largess of family to weather the economic storm. END SUMMARY.

Americans' Savings Rate Could Still Hurt Guangdong

¶2. (U) Guangdong Province's economy remains very much export-oriented, Guangdong Party Secretary and Politburo Member Wang Yang told Congressman Rick Larsen at their meeting on May 26. Wang expressed concern about economic conditions in the United States, noting -- as Nobel Prize-winning economist Paul Krugman had told him during a visit to Guangzhou just two weeks earlier -- that American consumers might alter their economic strategies and prefer saving rather than spending in the future. Wang worried that this would lead to further complications in Guangdong's export economy. According to Wang, 2008 trade with the United States accounted for 40 percent of the province's total. Due to the global financial crisis, Guangdong saw a 21.7 percent decline in foreign trade in the first four months of 2009, with trade between the province and the United States falling by 17 percent.

¶3. (U) Congressman Larsen told Wang that the economic stimulus deal of USD 787 billion passed by Congress was aimed at rescuing the U.S. economy. He also said that some of America's consumer habits had already begun to change, noting that the current savings rate in America was 4.2 percent, which was very high for Americans and indicated a shift from spending to saving.

Five Steps to a Better Economy

¶4. (U) Though Wang acknowledged that the current economic downturn had a negative effect on Guangdong's economy, he also pointed out that the recession was a good opportunity for local enterprises to confront pre-existing problems and make needed changes. In the long term, said Wang, this would be a turning point for the development

of Guangdong's economic structure; the province could transition from labor-intensive to high-value-added industries. Larsen commented on the difficult decisions Guangdong had to make in order to realign its economy, comparing this short-term pain/long-term gain to removing an adhesive bandage: the quicker, the better.

15. (U) Wang enumerated five measures taken by Guangdong in response to changing world economic conditions, claiming that they had helped Guangdong suffer less of a drop in its foreign trade than the national average.

-- Guangdong is taking steps to maintain its competitive edge in its traditional export markets, including the United States and Europe. Wang was confident that China's textile products, garments, shoes and suitcases -- to name a few -- were still competitive in international markets.

-- Guangdong is exploring new markets such as the Middle East, Russia, Southeast Asia, and Central Asia. In the first four months of 2009, trade between Guangdong and Southeast Asia showed minor growth, which Wang called "encouraging."

-- Guangdong is making every effort to improve the quality of its products.

-- Guangdong seeks to increase its presence in China's domestic market. Wang recounted how, several days prior to his meeting with Congressman Larsen, he and Guangdong Governor Huang Huahua led a delegation to neighboring Guangxi and Hunan Provinces to promote Guangdong products.

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-- Guangdong must accelerate the upgrade of its industrial structure. Wang said the provincial government now encouraged local enterprises to improve innovation and expand research and development and logistics and services. In addition, attracting high-tech, new energy, biotech and bio-pharmaceutical industries was a high priority.

If They're Out of Work, We Give Them a Free Ride Home  
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16. (U) Central to Guangdong's strategy to weather the rise in unemployment is the return of out-of-work migrants to their villages. In response to Congressman Larsen's interest in the impact of the recession on labor, Wang said that many migrant workers still had land in their hometown and could return home to farm; workers could also live on their savings or the income of family members while between jobs. For jobless people who could not afford to go home, the policy was for local governments to provide free shelter and food for ten days and then to arrange free transportation home.

17. (U) Wang appeared confident that Guangdong's approach to the unemployment issue would minimize any serious unrest, saying that, even with the closure of many factories, "Guangdong will be able to maintain social stability despite the higher unemployment rate caused by the economic recession."

18. (U) Representative Larsen's delegation has cleared this cable.

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